

15 December 2016

The PMI

The Performance of Manufacturing Index (PMI) slowed to a 13-month low in November. This seems nothing to lose sleep over, however – after putting it in perspective, and looking at its details. The perspective is that, even at 54.4, the PMI is still above its long-term average of 53.2. And, in detail, note the employment index sagged anew, to 48.6. Like its result (of 47.1) back in August we judge this as rogue. We don't see signs elsewhere that manufacturers are cutting jobs – quite the opposite. The other weak part of the PMI was in stocks of finished product. This does not look to be a sign of caution, not with the PMI new-orders index pumping away at a seasonally adjusted 58.0.

Q3 Sales (and Inventory)

And even if the PMI has slowed over November (and October) the September quarter manufacturing data were upbeat. Statistics NZ published these on Tuesday. They showed a 2.1% rise in the volume of sales. This, following a 2.2% expansion in Q2, established annual growth at 4.8%. Of course, sales aren't the same thing as production. However, when we account for what looks to be a steady ongoing increase in inventory in Q3, we get a similarly strong inference around growth in manufacturing output in Q3 (bolstering GDP). Despite weakness in meat and dairy processing, there seemed plenty else, including in primary processing, to drive Q3 manufacturing up.

Building

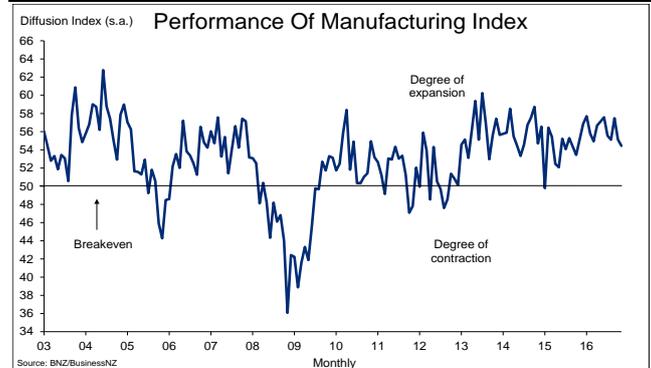
Underpinning momentum in New Zealand's manufacturing production is surely, still, the construction industry. We'll get more insight into the latter with today's Q3 Building Work Put in Place (BWPIP). For the record, we expect its volume measure to expand further, although it might struggle to match the approximate 5% gains that Q1 and Q2 posted, each. If we're right on BWPIP, and in the way Tuesday's manufacturing statistics will translate strongly into the national accounts, then there's a good chance of seeing another solid increase in GDP when the Q3 accounts are published. These are due 22 December. We currently estimate a 0.8% gain (3.6% y/y), with upside risk.

Earthquakes

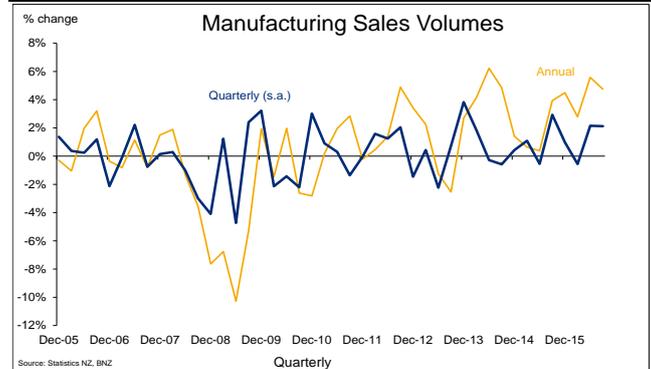
November's earthquakes will obviously disrupt and displace some business activity. But they will also reinforce the amount of construction that needs to be carried out. This is whether commercial buildings, infrastructure and, harking back to Canterbury's lessons, the demolition of buildings in the first instance. This is something to bear in mind particularly for Wellington, where earthquake damage to buildings has perhaps been underappreciated. In this vein, it was interesting that of all responses to November's PMI only two cited the recent earthquakes as a negative factor. But far more referenced construction as a positive influence on business.

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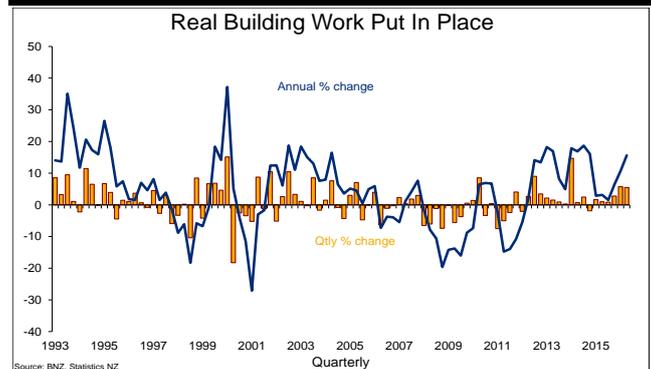
Still Better Than Average



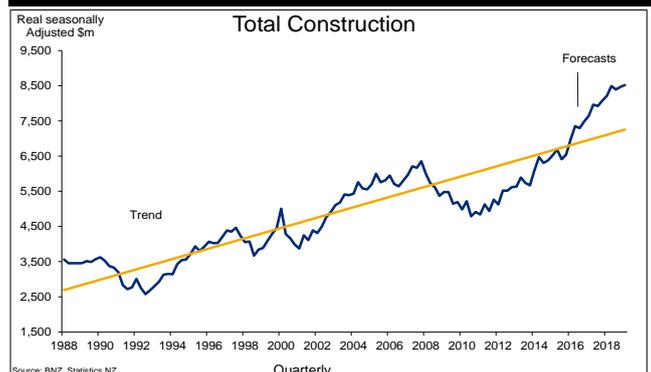
That's More Like It



Building Momentum



Reinforcing



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